

AMENDMENT OF THE NATIONAL BANKING LAWS

SPEECH

OF

HON. CHAUNCEY M. DEPEW
OF NEW YORK

IN THE

SENATE OF THE UNITED STATES

Friday, March 6, 1908



WASHINGTON
1908

84240—7525

SPEECH
OF
HON. CHAUNCEY M. DEPEW.

The Senate, as in Committee of the Whole, having under consideration the bill (S. 3023) to amend the national banking laws—

Mr. DEPEW said:

Mr. PRESIDENT: Presidents, Secretaries of the Treasury and Comptrollers of the Currency have for many years seen the defects in our banking system and urged legislation. Eminent bankers, both at home and abroad, have taken the same view. For various reasons Congress has failed to act or even to seriously consider any of these suggestions. The legislative body is always conservative, at least in the sense that it never acts until there is a strong public pressure behind. Legislation may at times seem radical, but it is always because the representatives believe such measures properly interpret and put in force the popular will.

We have had several disastrous panics, the most noted being those of 1837, 1857, 1873, 1893 and 1907.

All but the last became subjects of rancorous party discussion, and there was no agreement at the times of their occurrence as to the causes of their happening. But now contemporary opinion with great unanimity puts the blame upon our system of banking and currency and demands action and remedial legislation.

Under the delicate system of credit upon which the commercial transactions of the world are now based there will always be panics. They may come from wars or from fabulous destruction of property by earthquakes or fire or from over-speculating, resulting in the bankruptcy of financial institutions, succeeded by loss of confidence. These panics occur in every one of the great industrial countries. They happen in England, Germany, Austria, Italy and France, but less frequently in

France because the French are the most conservative and the least speculative of all peoples. They are a thrifty nation of savers and investors, and not of exploiters and promoters. They lose capital, as they did in the Panama Canal, to the extent of hundreds of millions, but it is taken out of their stockings and not out of their business. While these financial and industrial disasters are common to manufacturing, producing and trading nations, they never imperil the whole structure of trade and finance in other countries as they do with us. They never lead to such stringency of money and phenomenal rates of interest. The rate of interest marks the price which business pays for capital. As it advances new enterprises stop, production is curtailed and industries shut down, until finally, if money must be had at prices which necessitate great and continuing losses, the whole community is involved, capital and labor are both temporarily out of employment, with bankruptcy for the one and starvation or reliance upon charity for the other.

The United States is the greatest creator of wealth of all countries, and its productiveness is almost as great as that of all other nations who might be deemed its rivals combined. A financial panic with us leaves the field strewn with the dead and wounded, but our enormous possibilities for the creation of wealth speedily bring back prosperous times. The new and eager recruits and contestants for fortune fail to remember those who have fallen in the battle and take little heed of the lessons of the catastrophe. With our people so keen upon business propositions, with our agricultural and mineral production throwing the balance of trade in our favor every year, with our gold reserve kept at a higher average than that of any other nation, because it flows in to us to pay the international balances which are due, these recurring disasters, so universal and so terrible, must be caused by deficiency somewhere in our system. We have a larger per capita currency than any other country in Europe except France, and yet money, mere currency, has been for months commanding a premium, and in one of our panics gold was raised to 250 per cent. The German, French and English financiers say such conditions are impossible with them. They are unanimous in

34240—7525

the opinion that their safety and our peril are because they possess central banks with power to issue emergency currency, while our currency is rigid and inelastic, and there is and can be no unity of action among our 6,600 independent banks.

There have been efforts made in this discussion to locate and place the blame for this panic. It furnishes a fine field for partisan attack, but a calm and judicial review of the situation will develop many and sufficient reasons which are neither political, personal nor partisan. Undoubtedly the large and continuing increase year by year in the production of gold, which is the universal standard of value, deranges calculations and exchanges. The figures of this increase for the last decade are startling. The world's production of gold was \$7,000,000 in 1700, \$12,000,000 in 1800, \$262,000,000 in 1900 and \$425,000,000 in 1907.

This shows that while in the hundred years from 1700 to 1800 the increase was only five millions, in the hundred years from 1800 to 1900 it was two hundred and fifty millions and in the short period of seven years from 1900 to 1907 it was one hundred and sixty-three millions.

While according to Lord Cromer \$150,000,000 are buried in the ground by the Egyptians, who are universally money hoarders, and a large sum used in the arts, the amount available for currency is constantly and rapidly increasing. The Russo-Japanese war and the San Francisco earthquake and fire burned up and destroyed a very appreciable percentage of the capital of the world. Industrial expansion, the consolidation of industries into strong and unified corporations with increasing productive power and requiring more money, great enterprises by governments and by corporations, the requirements of the railways caused by the increase in traffic, and amounting within the last year to a thousand millions of dollars, have locked up immense amounts of capital otherwise fluid into permanent investments. The railroad companies tried to raise in round figures \$1,600,000,000, but could sell only a small portion of their 4 per cent bonds, and including what they obtained by the issue of short-term notes carrying 6, 7, and 7½ per cent interest, were able to borrow only \$900,000,000, or about two-

thirds of their immediate practical needs. The industrials were having such prosperity that they needed about \$600,000,000, and nearly two-thirds of the sum were secured by the stronger concerns at exorbitant interest, but those which failed to get the money for their capital requirements were forced into the hands of receivers. The tremendous volume of our internal commerce, the feverish activity of our manufacturers and the active demand and high prices for the food products of the West and Northwest, and for the cotton of the South, and for our coal, iron, copper, gold and silver, expanded our credit until probably at the time our trouble began 98 per cent of our business was being done by credit agencies and not more than 2 per cent with currency.

When the annual demand came for \$300,000,000 of reserve money to be taken from the banks in the central reserve cities to the West and South to move the crops, it called for a curtailment of over \$1,200,000,000 in credits and the calling of loans to meet this demand. If we had a central bank or if there was by some Government agency concerted action among our 6,600 national banks our affairs would never have reached this perilous condition. In Germany, for instance, the commercial paper of all banks in the Empire would have been indorsed by the banks which had discounted it and, being rediscounted in the central bank, have been the basis for currency to meet the demand and tide over the crisis without endangering the whole manufacturing and commercial fabric. But we have a currency which we can not expand, except by processes too slow to do any good, and which can not contract when the demand for currency relaxes. We have to maintain a national debt to have any currency, and we have to retain our present system to furnish a market for Government bonds in national emergencies at a rate which makes them from 15 to 25 per cent higher on the same interest charge than those of any other country.

There is no doubt that hasty and ill-considered legislation in many States had much to do with the panic. One-seventh of the wealth of the United States is invested in railroads. A very

large amount of the securities upon which business is done is based upon these securities. There are many thousands of railroad freight rates in force at the same time, and they are frequently changed according to the necessities of competition or of the traffic. Whether a reduction of rates will be confiscatory or not can only be ascertained by an investigation and the testimony of experts. This is thoroughly understood by the investing public, both in this country and in Europe. Rate-reduction bills were passed in many legislatures without reference to committees, without discussion, and with a whoop-la cry of "Hit them again; they have no friends." The machinery of the *Mauretania* or *Lusitania* is as complex as a watch. Any man could throw a crowbar into it and produce derangements which might jeopardize the safety of the ship, or do damage which would require experts and time and money to repair. Governor Hughes stated the true principle of the treatment of rates when, having advised and secured from the legislature the creation of public utilities commissions with full power, he courageously vetoed a 2-cent fare bill, which had been unanimously passed, on the ground that until those commissions had investigated and reported neither the Governor nor the legislature had any information upon which to base intelligent action affecting the securities owned by millions of investors and the employment and wages of millions of men.

Much has been said here and everywhere against Wall street, and sometimes New York is made interchangeable with Wall street. One of the most eminent agricultural experts in the country said to me recently:

If you New Yorkers would stop buying diamonds and automobiles the farmers with their seven thousand millions of salable products this year will save the country.

New York is the financial center of the United States, and, if our banking system was scientific, would be of the world. It is the greatest manufacturing city in the world. It has four millions of inhabitants within its boundaries, and if those who reside in the suburban districts and have their daily business in New York are included, as they ought to be, six millions of people belong to the metropolis, or more than the population

of fourteen of the sovereign States of the United States. Every section of the country—North, South, East and West—has as many representatives there as can be found in their largest cities. Every country bank is in a sense a branch of New York institutions. If a railroad is to be constructed or extended or its facilities enlarged, a mine opened, a water power developed, a burned town rebuilt or a disaster like that of the Johnstown flood alleviated by the raising of millions of dollars, the applicants all come to New York, and if the money can not be raised there it can be had nowhere. The various interchanges of the metropolis are the thermometers of values and of advancing or receding prosperity. Not over 1 per cent of the people who operate in these exchanges are New Yorkers. Every city in the United States has branches representing the houses which buy and sell on the stock, cotton, produce, coal and metal exchanges of New York. Every bank in the United States sends its surplus funds, when there is no opportunity for local investment, to New York to get the interest prevailing there upon all loans, and also because their exchange on New York is available all over the world.

Prosperity and high prices have paid off farm mortgages, and Western farmers are depositors instead of borrowers. Thousands of rural banks find there is no neighborhood demand for this money, so they send it to New York, where it produces a redundancy which stimulates speculation and overtrading. When an emergency arises in the West, the Northwest or the South necessitating the return of this money to those sections, they call for it immediately and expect it in lawful money. This always leads to the sudden calling of loans, and interest goes up by leaps and bounds. If confidence is a bit disturbed, then others withdraw their money. No bank in the world is strong enough or possesses the liquid assets to respond in a day to a call for all or a large part of its deposits. Then comes a panic which involves the whole country, and the country banks and other sufferers are, in the main, responsible for the stringency of which they complain. There is, unhappily, always speculation, and at times dangerous speculation, in the New

34240—7525

York exchanges, but so there is in the exchanges of London, Paris, Berlin, Frankfort and Vienna. The movement of trade would stop and all interchanges and sales of products cease if there was not a central market where people with goods could always find a purchaser. It is, in a sense, the ocean of credit which supports the vessels of commerce, great and small. Tidal waves can not be abolished without drying up the ocean and need not be feared by craft built and manned to ride them safely in all weathers. The banks and bankers of New York bought abroad \$100,000,000 in gold, and most of this was shipped to the West, and reserves were drawn down to the danger line for the same purpose. The panic was as unreasoning as it was unreasonable. It demonstrated that there is no financial cleavage of classes in such a stampede. Men and women who came in automobiles and carriages were equally as clamorous as those who had their little all in the suspected trust companies or banks.

Many years ago a man came into my office and introduced himself, saying that he had made a million of dollars in Western mines, had brought it in cash to New York, but possessed experience and intelligence far beyond the tenderfeet of Wall street, many of whom he had met, and wanted an introduction to New York bankers and brokers. I stated to him the dangers, told him that I had seen financial cataclysms which destroyed the best calculations of the most level-headed speculators, with the largest fortunes, but I might as well have attempted to stop a stampede of a herd of buffalo. I said, "Well, I give you six months." He lasted nearly a year, and then I gave him transportation to Denver, to begin life anew in the mountains of Colorado. In a few years he returned with another million, dug out of the earth, saying that he intended to get back from Wall street what he had lost. In three months I again enabled him to reach the mining regions of the Rockies, but have never heard from him since. His two millions did not go into the bank accounts of New Yorkers only. It was found in the balance sheets of traders who were on the opposite side of the market in Chicago, Milwaukee and St. Paul, Buffalo,

San Francisco and New Orleans, Charleston, Atlanta, Galveston and Boston, Portland, Me., Portland, Oreg. and Seattle.

Commodore Vanderbilt once said to me that any fool could make a million, but it took a wise man to keep it. It is these fools who are responsible for the exaggerated fortunes of which we hear so much, and it was the wise use of these fortunes in the recent panic by the wise men who had accumulated and kept them which saved from annihilation fools and wise men alike whose all was embarked in their business.

The discussion of this question has taken a wide range, and has been able and exhaustive. A stranger reading these arguments would come to the conclusion that there is neither speculation nor gambling anywhere in the United States except in the New York Stock Exchange, and that the New York banks both promote and help speculation, and thereby involve bankers and banking institutions, national and State, all over the country who are entirely innocent of such practices. Not only the United States, but Canada, Mexico, the South American Republics and the West Indies on this side of the ocean, and Europe on the other, transact their purchases and sales of securities on the New York Stock Exchange which are listed there. Pure and simple speculative transactions are only the fringe upon its serious business. I believe in the virtue of the country without conceding the wickedness of the metropolis. There is not much difference in the human nature of the pavement and of the field. The banking mind works in like channels all over the world.

The Western and Northwestern farmers agree to withhold their grain for higher prices. They are indebted for the expenses of the harvesting and of carrying it to the granaries at the stations and keeping it there to the local banks who finance them, and this is in the nature of a speculation. The same is true of the cotton growers of the South, and they claim that by this process, aided by their banking institutions, they have added enormously to the value of their crop. Real estate booms in prospective city and town lots are financed by banks all over the country and they are purely speculative. The same

34240—7525

human nature leads people to buy stocks or grain or cotton on the New York exchanges. To carry this to the gold fields of Nevada, the men in the shanties of these tented towns of the mining districts are as eager watchers of the blackboards which record the prices of their mining stocks as are those in the brokers' offices of the cities. In some counties of Kentucky the price of tobacco is now regulated by the shotgun. Night riders burn the barns and lash the backs of those who are on the other side of the market. The method is original and spectacular, but wholly speculative.

In my days of active railroading I made an extended tour every year covering the Middle and Western States. Upon one of these trips my train was stopped by an obstruction on the track which was being repaired, and I saw among the laborers a man evidently capable of better work. I told him so, and asked him how he came to be simply a laborer on the track. He said:

Do you see that farm yonder with that good house and outbuildings? That was recently mine. I was happy and comfortable. A man came along and offered me \$10,000. It was more than I thought the farm worth and I accepted it. He paid me \$1,000 down and gave me a mortgage for nine thousand. I then moved to town and sat in the office day by day, where the maps were displayed of the avenues, streets, parks and university grounds of the town which was to cover miles about. I saw my farm bought and sold until it brought \$15,000. I got the fever and became convinced that every foot of it was part of a city lot. I bought it back for twenty thousand, gave the thousand dollars which I had received and a mortgage for nineteen thousand and then the boom burst. The farm was sold under the mortgage and brought \$5,000 and left me in debt under a deficiency judgment for three times what I was worth when I parted with it. That is why I am working on the track.

I remember in another State where the mayor and the city officials took me about in carriages, showing me what was and what was to be. There was the real-estate exchange, the blackboard, the excited bidders, the transfer of lots and all the paraphernalia of the stock exchange. At every corner I was shown a house in which lived a man who had been a railroad conductor, or a locomotive engineer, or a small farmer, or grain dealer, or lawyer, or clerk, who was now worth hundreds of thousands on paper. That was stimulating everybody to put

34240—7525

what little money he had upon margins for the purchase of lots. I finally said to the mayor, "I see you have everything mercantile, industrial, financial, charitable, religious and educational which a great city and large population may require, but I have noticed no graveyard." "Oh!" he said, "Our cemetery was what is now the center of our city as it is laid out. It was too expensive to keep for that purpose and retarded our expansion, so we moved it some miles over the hill and transplanted our dead to the new location. That corner lot, now worth \$20,000, was my family plot. I was compelled to remove the remains of my wife over the hill to the new location, but I knew her spirit approved of it, because she was always most deeply interested in the growth of our town." Traveling again through another State I saw a large portion of the State staked out. I ascertained that the banks were loaning money to carry on these operations. I stated the facts to an interviewer at the next city, as I had ascertained them, with the result that the train was stopped the next day at noon and several bushels of telegrams were handed in, protesting against the interview. It created a panic of considerable proportions in New York and London. One message stated that I had cost honest people the loss of hundreds of millions of dollars, while several from the booming towns assured me that leading citizens with shotguns were on my trail. We all remember how in the early days of the oil excitement in Pennsylvania farmers on the poorest lands became rich and rich men became poor and the wildest speculation prevailed, receiving encouragement in every country banking office.

We remember the absurd and spectacular career of Coal Oil Johnnie who arose to be a millionaire in a day and spent all in a month. I want to assure Senators from the States where I have noticed these things that there is no such reckless speculation on the stock exchange in New York. There is no currency panic because of stock transactions on the stock exchange. There is not a dollar passed there in money. It is all done by checks and the balances adjusted between the banks in the clearing house. The shares and bonds are actually

34240--7525

bought and paid for in all these vast transactions whose record presents such phenomenal figures. Investors and buyers for a rise are inextricably mixed, as the stocks and bonds are actually bought and paid for. The demand loans are not nearly all for gambling on the exchanges. There are thousands of transactions where the man with securities which are bankable, but a permanent part of his estate, borrows on demand, because he gets the money at a low rate of interest and needs it for a turn in the sale of real estate or of other property by which he may be able in a few days to pay off the loan without having an interest charge running against him for money for which he has no further use, or he uses the securities for temporary loans in his business. While it is the purpose of the creation of banks and their duty to aid business and industries through the legitimate use of commercial paper, nevertheless the enormous increase of bonds and stocks and their use as security for loans for all purposes have imposed upon the banks an enlargement of their business and an addition to their responsibilities which did not exist fifty years ago.

One of the railroads of the country, to increase its equipment and enlarge its facilities, either upon its own motion or the order of the legislature or the railroad commission, issues ten, twenty, thirty or fifty millions of new securities. The railroad has no means of disposing of them. It is not in the banking business. It goes to one of the great bankers, and he immediately forms a syndicate which buys these bonds at a price and gives the railroad the money. The bankers are not supposed, in the large transactions in which they are engaged, to have these millions in their vaults. They borrow the money upon these securities and their credit from the banks. They may be able to dispose of them in a very short time, but if there comes a panic or a period of very active money, the bonds can not be sold for some time without a loss. In either case the banks finance the transaction until the bankers can find somewhere in the world a market for these securities, but they are generally call or demand loans. Such transactions are as much an aid to commerce and industries as loans upon commercial paper and the usual and ordi-

nary course of business in a bank of deposits and discounts. They extend the facilities of the railroad. They give employment to multitudes of men. They provide means for a larger and cheaper distribution of the products of the farm, the factory and the mine. In the round-up of the transaction the railroad has enlarged its equipment and facilities, the bank has had a profitable use for its money, the banker has made his commission on the sales and the country is richer with larger possibilities by the transaction. New York does this to an extent unknown anywhere else, but it does it for every State, Territory and section of the Union.

I fully realize the evils of gambling, whether in stocks or grain or in any other way. Its demoralization and perils are patent to everybody. I will aid in any effort to suppress it which does not involve embarrassment or ruin to legitimate business. But what I am saying is that in proportion to the volume of its business and the magnitude of its transactions there is as little of it in New York as anywhere else in the United States, and it is under better control. We can not abolish doing business on a margin of cash and the balance on credit. Every successful business man in the country has risen by the use of his credit. All merchants, manufacturers and bankers would work within very narrow limits if their transactions were confined to their cash capital.

I heard an interesting discussion in London about twenty years ago between English and American bankers of international reputation. Money was nominally 1 per cent and in little demand at that. Bankers of London were refusing to take deposits. They could not derive incomes sufficient to pay for the care of them. The opinion of these London and American financiers was that the wealth-producing powers of the world had exceeded investment possibilities. The same thought found expression in the most authoritative of the financial journals. They saw no hope for people who were compelled to live upon invested capital and who had not the ability to work. In their view 1 per cent was to be the standard of interest, and a man would have to worth a million to leave his family fairly com-

fortable. These financiers and financial writers could not foresee what the world has experienced in the tremendous, almost miraculous, development of industries during the last decade.

It has created a demand for money which raised the rate of interest in the Bank of England to 7 per cent and made the prevailing profitable charge in Germany seven and a half. While we have the same conditions, yet our rate should never have exceeded 10 per cent, but we all know it has varied from twenty to one hundred and twenty during three months. These countries had the scientific machinery, tested and tried by a century of experience, while we were living within the bolted and barred walls of an inelastic and unexpanding currency. Our financial system is like a pyramid placed upon its apex. The higher it is built the greater the danger of its toppling over, and yet every new strata is evidence of what we call prosperity. The systems of Germany and other countries construct the broadest foundation for the pyramid of their expanding business and credits, and as it rises the foundation becomes firmer.

The prosperity of the decade now closing, owing to good harvests, good markets and high prices for products, has paid off mortgages on farms and increased deposits in the country banks beyond all precedent and all forecasts of the past. If the farmer needs no money on mortgages, if the local demand of the country merchant is easily satisfied, if, as has been the case, money accumulates in these rural communities far beyond any local needs, we have in large sections of our country the conditions which prevailed twenty years ago when the bankers and financial writers of London were predicting hopeless stagnation of capital. But capital is fluid as never before, and so it flows from these rural neighborhoods to the places where it is loanable at a profit.

Commercial paper issued legitimately in the great cities for the necessary transaction of business appears among the assets of these country banks with names unknown to the neighborhoods. This paper is bought upon confidence in their correspondents in the cities and the relations between banker and depositor and borrower which is the life of credit can not exist.

A trust company closing its doors, a bank failure or an over-capitalized industry going to pieces undermines confidence. Then with the inability of immediate response an unreasonable alarm spreads all over the country. We have just escaped the most potential possibility of financial and industrial ruin in our history. We were in this peril at a time when production was never so great; new wealth from the farms, the mines and the forests never created so rapidly; markets never so good and the balance of trade in our favor never so large. Conditions similar but not so acute happen every year when the crops are to be moved, and bank reserves in the central reserve cities are drawn down with the curtailment of \$4 of credit for every dollar shipped. The oft-repeated statement of our redundant currency and of our per capita being greater by 25 per cent than that of any other country is largely a delusion. Take out of our currency the amount which the Government holds in gold, the currency which it keeps out of the banks and in the Treasury to meet current expenses, and that which is locked up in bank reserves against deposits and probably instead of three thousand millions less than one-half of that will be in circulation.

There is no other people in the world whose per capita keeps anything like so much money out of circulation by carrying it in their pockets and hiding it in their houses. The circulating medium for the ordinary and necessary transactions of life, which are done upon the cash basis in foreign countries, is largely gold, silver and copper. The result is that only a limited amount is carried by the individual. Our citizens, whether men or women, rarely have gold. They dislike silver and use bills. The aggregate of money upon the persons of men, women and grown-up children of our country is enormous. The same is true of the sums which are in nooks and corners and hidden recesses of the homes of our people. Immigrants from Europe who spend little and save nearly all their earnings, to live in ease at home the rest of their lives, send abroad annually about \$250,000,000, of which it is estimated nearly one hundred millions in cash are carried by those returning. Twenty-five thousand millions of current business was confronted,

when loss of confidence impaired credits, with the peril that it must have nearly the equivalent of thirteen billions of deposits in cash to go ahead, and millions of depositors wanted at once to draw out to hoard or to hold in safe-deposit boxes for pay rolls all of that less than one thousand five hundred millions of currency available.

For three days the most prosperous and progressive of peoples, at the high tide of the most wonderful prosperity of their marvelous material development, were on the brink of the most destructive and widespread financial and industrial breakdown ever experienced. The situation was saved because the banks had a leader of vast experience, of demonstrated genius for affairs, and large resources, who could unite them and whom they could follow, and because the banks of New York had the courage and wisdom to act in concert, and because the Secretary of the Treasury, Mr. Cortelyou, met the situation with rare firmness and ability.

We are in danger with our inelastic currency from another source which has received little attention. What has been done once can be repeated, and we have had artificial currency famines brought on by audacious operators locking up money. With the vast resources which a few speculators can now control, the temptation is great to put the prices of securities or products up or down by cornering the currency. Ours is the only country where this is possible. The Bank of France could swamp an unscrupulous syndicate attempting such a scheme with a thousand millions of dollars of currency, and other financially civilized countries would be proportionately powerful, while our banks are powerless to expand quickly in lawful money and might be enjoined by speculators in their makeshift efforts to save the situation by clearing-house certificates and credit devices. It is a tribute to the integrity, the morality, and the patriotism of our much-abused bankers and men of great wealth that they have used all their resources and all their power to prevent, to make impossible, the success of such efforts.

A Senator upon this floor the other day placed Andrew Jackson next to George Washington in the influence which eminent

men have had upon the destinies of the Republic. Alexander Hamilton, the greatest original genius this country or any other ever knew, in placing our chaotic finance upon a stable basis, brought into existence, among other things, a central national bank. Andrew Jackson, who hated all banks, not only destroyed the central bank, but left a profound impression against it upon the minds of his countrymen, and so deeply embedded that hostility in his own generation, that to-day his dead hand clutches with a grip which can not be loosened a central national bank. We can not, without consequences not to be contemplated, change our present basis of national banking and circulation based upon Government bonds, but we can add to the present system an elasticity which, while it will not prevent, will avert many of the dangers now threatening us; dangers which will increase as our country grows in population, wealth and productive energies.

I would prefer an asset currency for our emergencies such as has proven eminently successful under conditions exactly the same as ours in Canada, and which works with like success in Scotland.

I know that generations must pass before the traditions of General Jackson will permit a central national bank. While clearing-house certificates and other makeshifts of doubtful legality, which have been held up to attack and ridicule here, have been our only safety in these recurring financial difficulties, we ought by legislation to supply practical and simple remedies. There is as much danger in redundant as in restricted currency, and if we add to our present system an elasticity which has been demonstrated to be safe and effective under proper restrictions of taxation, we are entering upon no new experiment, but simply following the proved experience of other highly organized industrial and financial countries. A currency based upon assets which would go out automatically when the interest rate rose so as to make it profitable and come back automatically under a tax which would make it unprofitable when the interest rate went down, would give us easily and instantly all the new currency required. If it was printed in the same

34240—7525

way as other bills, presented the same appearance, had the sanction of the law, and was issued only under the authority of Government officials, it would meet emergencies satisfactorily and the demands of the business of the country, preventing the curtailment of commercial credits for legitimate business and removing the danger of cornering of the currency. Five thousand millions of dollars were lost by investors in the shrinking of securities, and probably one hundred millions to wage-earners in the stoppage of enterprises and curtailment of employment in the recent panic.

There is a popular delusion about a rich man's panic. It means a general belief and satisfaction that the so-called "multi-millionaires" have suffered serious losses. Men of great wealth and financial genius foresee the storm long before it breaks. If property is to be attacked by legislation or depreciated by a panic they sell out when the public are buyers. They foresee again when the storm has spent its force, repurchase at panic prices, and double their fortunes. It is business men whose capital is active and who are borrowers on their credit to keep their business enlarging who suffer loss or are forced into liquidation or bankruptcy.

But while I believe in an asset currency, under such safeguards and restrictions as have proved successful in the experience and practice of other commercial and industrial nations, I have become convinced of two things: First, that it is impossible at this session of Congress to revolutionize our banking and currency system; second, that it is absolutely essential that we should have at the earliest possible moment some form of emergency currency. We do not need this relief to-day, but no one can predict when it will be required because of the limited amount of available currency, amounting to less than 8 per cent of the total deposits in all the banks of the country.

Panics and bank suspensions are matters of confidence. The fact that the banks are sound, as the recent panic demonstrated to such an extraordinary degree, is of no avail. The first people to draw money from suspected institutions were the banks and trust companies which had deposited in those

against which rumor leveled its shafts. All that the public grasp when fear prevails is that there is no way of furnishing money except by the help which the Government can give in deposits and by currency being issued under a process now too slow to be available and of too limited amount to remedy any difficulties. Both institutions and individuals forget, in their anxiety to get their money out of the bank, that its assets are necessarily in commercial paper, securities and real estate which can not immediately be turned into cash.

I would like to change our system of bond-secured currency. I would like to have all our various kinds of currency consolidated into one, and that based upon gold as a reserve, with power to increase it in a crisis, as can be done under similar conditions in Germany, France, England, Scotland and Canada. But the Senator from Rhode Island [Mr. ALDRICH] says in his very able and lucid speech that our system is a growth and makeshift created to meet emergencies at different periods.

That is the fact, and it has become so deeply imbedded in our commercial, financial and industrial life that it can not be changed in a day. During my earlier, more tumultuous and enthusiastic years I expected the millenium to arrive as soon as needed in every department of human endeavor, but I have learned in the observations of a long life that reforms come slowly and not at once. Those succeed which are tentative and proved by trial until perfected. I think everyone will admit that we can not go into a broad scheme which will undo absolutely the work since 1862 and build within the next few months a wise and enduring structure. That can only be done in times of industrial prosperity, confidence and financial peace. That we have not now. We are living in a period of unrest, and the wounds of our catastrophe are not yet healed. The country is recuperating and, with its enormous resources and productiveness, will recover rapidly; but the basic condition of its restoration is confidence in the belief that the banks will not again suspend and that the depositors can have their money whenever they want it. This bill tides over the crisis. In forty-eight hours five hundred millions of new money can be had.

34240--7525

The fact that this is possible is in itself assurance and reassurance.

By the reports of two of the greatest railroad systems in the country, the gross earnings of one of them had fallen off 12½ per cent and of the other 18½ per cent for January, 1908, as compared with January of last year. This meant that there had been in each of these systems a corresponding percentage in the reduction of expenses. "Reduction of expenses" is a sentence of calamity to tens of thousands of workers and fear to them all. If this reduction involves 50,000 men, it means 250,000 people who are without incomes. It means strained credit for the storekeeper and possibly bankruptcy. It means a smaller demand upon the manufacturer and from him upon the raw-material producer. The effect of this percentage of decrease in earnings on the railroads is idle cars, and, with the curtailing of the movement of traffic, a reduction in the consumption of coal, which again reacts with like effect upon the coal miner and the coal operator. The managers of these properties believe that the downward movement is checked. They see that every condition exists for a renewal of the prosperity which was so suddenly halted in October of last year, but they all believe that the public must be assured that legislation has provided means to increase the currency to meet emergent and exigent demands, and with confidence that this has been done the tremendous forces of production will again energize industries and transportation.

The Aldrich bill, so called, is simple in its remedies, practical and easily understood. It is a makeshift, if you please, but as long as we can not recreate our system at once, expedients which are effective are essential to meet present conditions. The main thing is to have securities available for the additional currency which are so large in amount and so easy to be held or obtained that the control or cornering of them is impossible. The bill under consideration accomplishes this result.

This legislation should be supplemented by a commission. I do not mean a commission of experts, so called, but a commission composed of the joint committees of the two Houses of Con-

gress. I have little faith in commissions selected outside of Congress to recommend work for the National Legislature. Such commissions are necessarily composed of specialists who are limited in knowledge to the line of their own studies and activities and know little of other interests and have less confidence in their advocates, while legislators of long experience, who are committed to no theory, who are practical and who have heard all sides over and over again, can formulate into legislation the results gathered from expert testimony bearing upon questions in which they also have had broad and large experience.

I think we should strengthen the position of the Comptroller of the Currency. So long as the Government is in the banking business, his functions are as important as that of any officer in the Government. The position requires a man of first-class ability, training and experience. When he demonstrates this upon the national platform, his services are required for life positions at large salaries by the great financial institutions of the country. These institutions, whether they be railroads or banks or trust companies, understand that the salary, no matter how large, which secures the right man—and there are very few compared with the demand—is of little account. I have known in my own experience several instances where the talent of the manager of a corporation dealing in enormous figures was the difference between surplus and dividends and deficiencies and bankruptcy. The Comptroller of the Currency should have Cabinet pay and a term of office not dependent upon changes of Administration. The Government, having secured the best available talent, should be able to retain it by the permanency and dignity of the office, even though its salary was far below what a private corporation would gladly give.

The number of bank examiners should be increased very largely and their compensation be a fixed salary instead of fees. I believe there are now eighty, and it is impossible for that number, however competent or well intentioned, to make the frequent examinations necessary to keep their fingers upon the

34240- 7525

6,000 national banks. I think the commission I have suggested should provide some method by which the Secretary of the Treasury, the Comptroller of the Currency and the Treasurer of the United States could be brought in intimate contact with a board selected by the national banks and possessing supervisory and advisory powers, with some executive responsibilities, which might concentrate the banking power of the country for the prevention of panics and also for the protection of depositors, stockholders and the public against badly or corruptly managed institutions. This would meet in a limited way the duties of a central bank without its power. I agree with the Senator from Alabama that there should be a larger amount of the reserve kept in the country banks and that they should have the privilege of keeping part of them in bonds which could be used for emergency currency. I believe it would be a hazardous experiment for the Government to guarantee deposits. The effect upon State banks, trust companies and savings banks would be disastrous. They could not survive the competition of national banks with the Government standing sponsor for their deposits. It would eliminate the sense of responsibility now resting upon officers and directors. It would place a premium upon incompetency and carelessness. It would penalize banks wisely, honestly and efficiently managed by taxing them to raise a fund to pay the debts of those which fail through bad or dishonest officials.

The difficulties of this legislation are in the possession of every Senator. Our mails are crowded with suggestions, all different. I wrote a letter, mailing with it a copy of this bill, to the officers of over 400 banks. Most of them have responded, but there is no substantial agreement among them. The Bankers' Association of the United States prepared a bill, which I think excellent, but that has been attacked by bankers of distinction, and its passage at this session rendered impossible. Action at the earliest moment possible is the demand of the people. Industry is waiting, as never before, upon the removal of a present danger which excites general apprehension. Failure to agree upon any legislation would result in suspense and partial

paralysis. The country is prosperous, and its financial, transportation, farming and manufacturing resources are unimpaired. Their movement halts because of fear that our currency, notoriously insufficient in times of trouble, will not have given to it by this Congress an elasticity which will prevent a recurrence of crises like that through which we have recently passed. The Aldrich bill is the result of the most careful study of one of the ablest of committees on finance. It is the only one upon which there is any promising unison of opinion. Therefore it is that I believe this measure, amended along the lines of its original plan and design by the suggestions which the debate has evolved, will accomplish the purpose of restoring confidence, preventing and minimizing panics and meeting emergencies until a full and complete system for our banking and currency can be perfected.

34240—7525

O